Integration of Waqf and Islamic Microfinance for Poverty Reduction: Case of Pakistan

Article · January 2015

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IRTI Working Paper Series

WP# 1436-05

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18 Jumada'2, 1436H | April 07, 2015

ISLAMIC RESEARCH AND TRAINING INSTITUTE
A MEMBER OF THE ISLAMIC DEVELOPMENT BANK GROUP

Islamic Economics and Finance Research Division

IRTI Working Paper 1436-05

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Abstract

Pakistan has been facing a high incidence of poverty. Despite its persistent efforts to make a dent on poverty, the country never witnessed a systematic reduction in the same. The country has been spending a significant amount on safety nets and social protection programs. Some programs provide direct cash grants and other forms of indirect support to the poor, while microfinance programs provide microcredit, micro savings and micro insurance to the beneficiaries. The government extends full support to the microfinance industry and seeks to provide an enabling environment for its successful operation. As a result, the microfinance industry in Pakistan has been flourishing and steadily enhancing its outreach. However, despite all the efforts, it currently covers just about 10 percent of the market in 2013.

In Pakistan, initiatives for Islamic microfinance have been undertaken by a few NGOs and financial institutions. Almost all IMIs function below operational self- sufficiency (OSS) and financial-self-sufficiency (FSS) levels. Most of IMIs are unable to increase their outreach due to the human and financial constraints. They face a constrained supply of funds as well as human resources. This paper posits that the constraints are more apparent than real. Islamic finance must include as part of the formal financial system, its time-tested institution of waqf involving endowment of both financial and real assets for community empowerment. The IMIs should be well aware of how to create and put to use such community assets for the economic and social betterment of the community. The paper sought the opinion of beneficiaries on waqf- Islamic microfinance integrated model and discussed the same with the professionals and practitioners. The beneficiaries were not aware of the main components of the waqf-microfinance integrated model, but professionals and practitioners, invariably supported the integrated model while voicing some concerns that should be considered while formulating policies for the sector

Keywords: waqf, integration of waqf, Islamic microfinance, poverty, Pakistan

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Integration of Waqf and Islamic Microfinance For Poverty Reduction: Case of Pakistan [1]

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1. Introduction

Pakistan has been facing a high incidence of poverty. Notwithstanding its persistent efforts to make a dent on poverty, the country never witnessed a systematic reduction in the same. Poverty rates have been hovering around 30 percent over the last four decades. Many challenges including low economic growth, high inflation and unemployment, sectarian strife and terrorism-related violence and above all, serious governance issues have undermined efforts to alleviate poverty by both the public sector and the civil society.
During the last decade, Pakistan embarked on an integrated approach to reduce poverty. As the Poverty Reduction Strategy documents -I and II indicate, the country aimed for accelerated and broad-based economic growth, while maintaining macroeconomic stability, improving governance and consolidating devolution, investing in human capital, and targeted programs with emphasis on social inclusion. It identified 17 pro-poor sectors with a target to spend a minimum of 4.5 percent of the GDP on them. As a result, pro-poor expenditure has been rising significantly from 3.77 percent of GDP in 2001-02 to 9.9 percent in 2011-12.
Pakistan spends a significant amount on safety nets and social protection programs. These include the food support program, the peoples' work program, the natural calamities and disaster management program as well as various income support and microfinance programs. Some programs provide direct cash grants and other forms of indirect support to the poor, while microfinance programs provide microcredit, micro savings and micro insurance to the beneficiaries. The government extends full support to the microfinance industry and seeks to provide an enabling environment for its successful operation. As a result, the microfinance industry in Pakistan has been flourishing and steadily enhancing its outreach. However, despite all the efforts, according to estimates, it hardly covers 10 percent of the market in 2013.
In Pakistan, initiatives for Islamic microfinance have been undertaken by a few NGOs. About nine institutions provide Islamic products and another two institutions use both Islamic and the conventional ones. Almost all IMIs function below operational self-sufficiency (OSS) and financial-self-sufficiency (FSS) levels. These include organizations

[1] We are thankful to Mr. Khaleeq Uzzaman, Associate Professor / Head Training & Seminars, School of Islamic Banking and Finance, International Islamic University, Islamabad, PAKISTAN, who administered the survey and Mr. Mohd. Fouad Amin, PhD student, IIUM, who tabulated the data.
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like Akhuwat with unique models of intervention and therefore, not comparable along traditional parameters. Their uniqueness arises out of a sustained growth in operations rooted in and benefiting from voluntarism and philanthropy. Although Akuwat's is working below OSS and FSS level its ever-expanding funds base due to donations has made possible an exponential growth.

Most of IMIs are unable to increase their outreach due to the human and financial constraints. They face a constrained supply of funds as well as human resources. This paper posits that the constraints are more apparent than real. Islamic finance must include as part of the formal financial system, its time-tested institution of waqf involving endowment of both financial and real assets for community empowerment. The IMIs should be well aware of how to create and put to use such community assets for the economic and social betterment of the community. Historically, *waqf* served the purpose of need-fulfillment of the poor as well as their long-term economic and social empowerment. This was achieved by awqaf through provision of education and health to build productive capacity, improve access to finance, facilitate research and innovation and a host of interventions to alleviate poverty and bring about comprehensive human development. Scholars as well as policy makers in the Islamic world once again see, in the institution of waqf, a possible solution to the problems of the humanity, especially those of hunger, deprivation and grinding poverty. A few studies have suggested the integration of waqf with the microfinance so that the prohibitive levels of operational costs associated with microfinance may be brought down to realistic and affordable levels. Different models have been suggested for waqf to support project finance and human resource development. The present study is based on a similar hypothesis of integration for human and enterprise development. The study is focused on obtaining views of microfinance beneficiaries with respect to the applicability, suitability and sustainability of the integrated model. The present study tests the model in the context of poverty alleviation in Pakistan.

The rest of the study is organized as follows. Section 2 provides an overview of the poverty levels in Pakistan and of its microfinance and waqf sectors. The data set and methodology is reported in section 3. Section 4 presents results from the survey and section 5 focusses on the outcome of the focus group discussion on Integration of Waqf and Islamic Microfinance Model (IWIMM) and the interview of the experts. Section 6 provides a summary and concludes.

2. Overview of Poverty, Microfinance & Waqf in Pakistan

Poverty has been recognized as a complex and multidimensional phenomenon that extends beyond the notion of income and encompasses social, economic and political exclusion. Concern in the incidence of poverty is not a new phenomenon. Countries have been struggling to alleviate poverty. In the past, the public sector has been the key driver for poverty reduction initiatives. Recently, in addition to the public sector, civil society and NGOs have also been contributing towards poverty reduction. Knowing that poverty is a multidimensional phenomenon, it requires well-coordinated measures to reduce it.

Pakistan is a lower middle-income country, with about one-third of its population being extremely poor and under-privileged. Pakistan is facing many challenges including low growth, high inflation and unemployment, sectarian strife and acute governance problems. Notwithstanding a host of poverty alleviation measures in the past, poverty not only persists, it has actually been growing. Over the last decade, Pakistan has embarked on an integrated approach to reduce poverty. Pakistan's strategy for poverty alleviation is based on four pillars, 1) accelerated and broad-based economic growth while maintaining macroeconomic stability, 2) improved governance and consolidated devolution, 3) investment in human capital, 4) and targeted programs with emphasis on social inclusion.

Microfinance and zakat have been given a key role in the social protection program of Pakistan. However, waqf does not yet find a mention in the program that shows policy makers have not recognized the due importance of waqf in the social protection and poverty alleviation. This section provides an overview of poverty, microfinance and waqf in the country.

2.1 Poverty in Pakistan

Determining the threshold is the first step to identify the poor. Due to the differences in measuring poverty lines, poverty estimates are not comparable across regions and over time. Arif and Farooq (2012) divided 1963-2008 period into two broad groups; 1963-1992, for which poverty estimates are usually based on secondary or published grouped data, using generally the calorific norm of 2550 calories per day per person. For the 1992-2006 period, poverty has commonly been estimated by applying the official poverty line (based on 2350 calories per adult per day) on micro-data (Household Income and Expenditure Surveys-HIES). During the early period, or until 1992, it was common to have different threshold levels for urban and rural areas, keeping in view the higher calorific requirements of rural population for physical activities. In the late 1990s, a uniform threshold of 2350 calories per adult per day was used for rural as well as urban poverty estimates. However, in general, poverty trends can be found despite the methodological differences.

Although poverty is widespread in Pakistan, it is more prevalent in rural areas than in the urban ones. While there was increase in the incidence of poverty during 1960s, the trend was reversed 1970 onwards. The changes occurring in agrarian structure during the 1960s, contributed to rural poverty. Some of the factors responsible for the decline in poverty from 1970 onwards and throughout the 1980s were overall economic growth and foreign remittances. The introduction of zakat and ushr also played its role in 1980s[5]. However, poverty re-emerged and aggravated further during the 1990s and in the early 2000s.

The estimates of incidence of poverty presented in the following Table 1 do not show unidirectional trends. The country has been experiencing increasing poverty levels during the 1990s, rising from 26.8 percent in 1992-93 to 30.6 percent in 1998-99. Rural poverty increased form 28.3 percent to 34.7 percent, while urban poverty declined from 24.4 percent to 20.9 percent during the same time. Rural poverty significantly contributed to the overall poverty levels of the country during the 1990s. A number of factors including decrease in economic growth, political uncertainty, economic instability, and wide fiscal and current account deficits were responsible for the increase in poverty during the 1990s. The incidence of poverty, which was gradually increasing in 1990s, continued increasing until it reached 34.5 percent in 2000-2001. Both rural and urban poverty increased to 39.3 percent and 22.7 percent respectively. The incidence of overall poverty then dropped, reaching 22.3 percent in 2005-06. During the same period, the drop in rural poverty was faster (12.3 percentage points) than the drop (9.6 percentage points) in urban poverty. The possible contributing factors for the decline in poverty could be high economic growth combined with increasing public sector spending on education, health and infrastructure. However, the country could not sustain the decline in poverty and level of poverty started rising again 2007-08 onwards. Since the mid-2000s the Pakistan economy has been facing a number of problems including declining economic growth, high food and oil prices and thus high inflation, power shortage and week governance . Among others, these have been the main factors, which shattered the declining trend in poverty that the country observed during 2000-01 to 2004-05 and 2005-06.

[5] Shirazi (1994)

A recent study (Malik and Whitney, 2014) provides consistent estimates of money-metric poverty based on HIES datasets during 2001-2010. Consistent and realistic poverty estimates are important for anti-poverty programs and their impact evaluation. The estimates of poverty from 1998-99 to 2005-06 are based on official poverty lines. The official poverty line was estimated in 2001-02 based on HIES 1998-99 data set, which has been adjusted for inflation in the subsequent years using Consumer Price Index (CPI) . The paper finds following four problems in this methodology: 1) outdated sampling frames underlying the HIES; 2) a non-representative sample used initially for estimating the poverty line; 3) sensitivity of estimates to caloric threshold underlying the poverty lines; and, 4) changes in the consumption basket due to price fluctuations not being adequately represented in the CPI and hence in the estimation. The food price increased much faster (39.5 percentage points during 2006-08), which is not adequately captured in the CPI. The prices subsequent to 2007 are based on Food expenditure Survey that understates the weight of food category in overall consumption than HIES data sets.

Table 1: Pakistan: Trends in Poverty (Head-count Ratios)

Year	Urban	Rural	Overall
1963-64	44.53	38.94	40.24
1966-67	40.96	45.62	44.50
1969-70	38.76	49.11	46.53
1979	25.94	32.51	30.68
1984-85	21.17	25.87	24.47
1987-88	14.99	18.32	17.32
1990-91	18.64	23.59	22.11
1992-93	24.4	28.3	26.8
1996-97	22.6	33.1	29.8
1998-99	20.9	34.7	30.6
2000-01	22.7	39.3	34.5
2004-05	14.9	28.1	23.9
2005-06	13.1	27.0	22.3
2007-08			29.9
2008-09			33.8
2008-09			36.1
2008-09			30-35

Source: Poverty estimates from 1963 to 1991 are reported from Amjad and Kemal (1997) and from 1992 onward are reported from Arif and Farooq (2011)

Malik and Whitney (2014) estimated the calories expenditure function from data for each of the available survey years. Poverty line expenditure consistent with maintaining a minimum intake of 2350 Kcal per adult equivalent were estimated for each of the surveys. The Foster Greer Thorbecke (1984) class of decomposable money-metric poverty estimates were computed for each of the years based on these poverty lines. In order to account for the provincial variation and variation across rural and urban sectors, the calories expenditure functions were estimated using the intercept and slope dummies. The consistent results are presented in Table 2. The results show persistent increase in the headcount ratios over the years. The official estimates based on official poverty lines adjusted for inflation for the subsequent years are misleading. As it has already been mentioned above, poverty is widespread, but is essentially a rural phenomenon. This is also evident from Table 2. The incidence of poverty is high in all the rural areas of the four provinces. In the year 2010-11, the highest incidence of poverty was found in Sindh-rural (48.5 percent) followed by Baluchistan-rural (40.8 percent), Punjab-rural (38.0 percent) and the lowest in KPK-rural (36.4 percent)

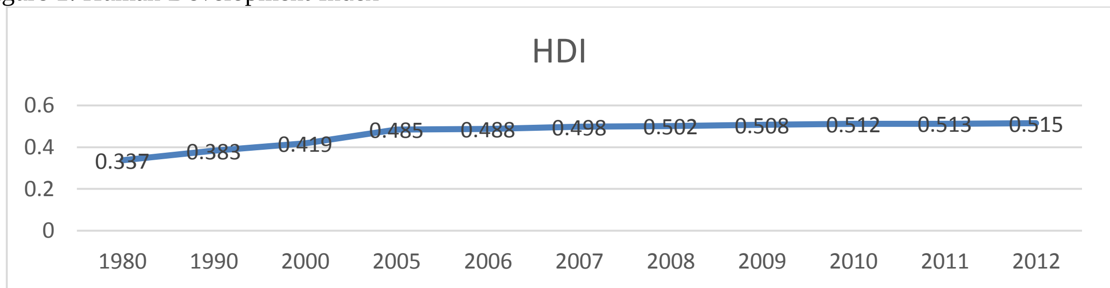
Table 2: Estimated Headcount (%) by HIES year					
Region	*2001-02*	*2004-05*	*2005-06*	*2007-08*	*2010-11*
Pakistan	30.1	30.6	34.0	33.1	35.6
Urban	22.0	20.7	24.1	25.0	27.7
Rural	33.4	35.4	39.3	37.3	39.7
Punjab – Urban	24.8	22.9	24.1	24.7	28.5
Punjab – Rural	32.0	33.4	33.8	33.3	38.0
Sindh – Urban	16.5	15.7	21.2	23.5	24.8
Sindh – Rural	38.7	40.1	53.4	48.7	48.5
KPK – Urban	25.7	29.0	34.2	29.5	32.4
KPK – Rural	32.5	36.7	39.7	34.8	36.4
Baluchistan – Urban	22.8	20.7	43.9	38.0	39.3
Baluchistan – Rural	32.1	34.9	54.6	53.7	40.8

Source: Malik and Whitney (2014)

2.1.1. Social Poverty

Human development index (HDI) is a broader measure of development compared to development measured in terms of GNP per capita only. HDI is a composite measure that takes into account health, education and income indices. UNDP has been using HDI to assess the level and progress of development of the economies. Alternatively, this shows the improvement in social progress or social poverty. Pakistan is ranked quite low in terms of human development at 146th position among 187 countries in 2012. Pakistan experienced an increase in HDI from 0.337 in 1980 to 0.515 in 2012. This moderate increase over 32 years is particularly low over the period 2005-2012. Due to the slow progress in health, education and nutrition, Pakistan has been unable to achieve its targets set in the MDGs.

Figure 1: Human Development Index



Source: HDI, UNDP (2013)

2.2. Microfinance

The poor generally lack access to the financial services, which aggravates poverty even further. It is believed that access to micro-financial services can make them economically active and they can achieve social and economic development. The microfinance industry has shown a tremendous growth in the developing countries especially after the experience of the Grameen Bank in Bangladesh. The most recent entrants to the microfinance industry are commercial banks. Not only there are the central banks of many countries backing the microfinance industry, but also the multilateral banks such as the World Bank and the European bank for Reconstruction and Development, the Asian Development Bank and the Islamic Development Bank, supporting the industry.

Microfinance services providers have been growing very rapidly in Pakistan. About 40 different institutions including microfinance banks (MFBs), rural support programs (RSPs), microfinance institutions (MFIs) and NGOs are working in this field. While the number of microfinance services providers has been steading increasing, currently a larger part of the potential market remains unserved.

2.3.1. Regulatory Requirement

Microfinance services providers can be classified into three broad categories in Pakistan viz. microfinance banks (MFBs), rural support programs (RSPs), and microfinance institutions (MFIs). MFBs are commercial banks licensed and prudentially regulated by the State Bank of Pakistan (SBP), which is the central bank of the country, to exclusively serve the microfinance market. About ten MFBs have been licensed under the Microfinance Institutions Ordinance, 2001. MFBs are legally empowered to accept and intermediate deposits from the public. MFIs are non-bank non-government organizations (NGOs), including local and multinational, registered under a variety of regulations, including the Societies Act, Trust Act, and the Companies Ordinance for the provision of microfinance services. RSPs are NGOs registered as non-profit companies under the Companies Ordinance to focus on the rural areas only for credit operations. As a group, the RSPs are registered with and supervised by the Securities and Exchange Commission of Pakistan (SECP).

The government has provided an enabling business environment to all micro services providers. According to the Global microscope on the microfinance business environment that benchmarks the regulatory and operating conditions for microfinance in 55 developing countries globally, Pakistan stands at No.3 for overall business environment. The ranking is based on (i) r*egulatory framework and practices*, including legal recognition for microfinance institutions (MFIs), national regulatory and supervisory capacity, policies towards deposits and market distortions; and (ii) s*upporting institutional framework*, such as, financial reporting standards and transparency, credit bureaus, pricing, dispute resolution, and policies for offering microfinance through new agents and channels. Another indicator, the microfinance business environment index that additionally includes the effects of political shocks on the microfinance sector and general country conditions assigns a weighted sum of category scores is between 0 and 100, where 100 is most favorable. According to this indicator, Pakistan has a score of 69.7, which means it has a strong microfinance business environment compared to other countries.

In year 2013, the business environment improved further by 2.3 points compared to the 2012. Pakistan also ranks 3rd in ‘regulatory framework and practices’ (with a score of 75) and 3rd in ‘supporting institutional framework’ (with score of 70). However, its rank dwindles to 30th while taking into account its political instability.

2.3.2. Outreach

Microfinance is serving about 2.8 million borrowers with gross loan portfolio (GLP) of Rs 52 billion in the fourth quarter of 2013. The number of active borrowers increased by about 14 percent and 20 percent in 2012 and 2013 respectively. The GLP registered an increase of about 33 percent and 36 percent over the same period. Microfinance industry is expanding its presence by increasing its branches. The number of branches stood at 2,127 in 2013 compared to 1,918 in 2012, which was a respectable growth of about 11 percent during the year. The number of loan disbursed increased by 28 percent from 696,884 in 2012 to 892,013 in 2013 and the amount disbursed stood at about Rs. 24 billion in 2013 compared to about Rs.17 billion in 2012. The average loan size was Rs. 26,838 in 2013, which witnessed an increase of about 11 percent over 2012 (Table 3).

The number of savers increased by 19 percent in 2012 from 3,933,496 in 2011 to 4,682,422 in 2012. However, in 2013 the number of savers was 5,977,426, a significant growth of about 28 percent. The value of savings stood at Rs. 15.5 billion, Rs. 24.9 billion and 34.8 billion in the year 2011, 2012 and 2013 respectively. Similarly, the number of policy holders increased by 14.38 percent from about 2.8 million in 2012 to 3.2 million in 2013 and the sum insured experienced a growth of about 23 percent from Rs. 36 billion in 2012 to Rs. 44 billion in 2013.

In Pakistan, microfinance industry is growing at a steady pace, but its outreach is hardly 10 percent of the potential microfinance market. The penetration rate was 7.6 percent in the year 2011, which increased to 8 percent in 2012 and it was 10.3 percent in 2013. To cover the potential market, the microfinance industry has to grow much faster.

Table 3: Microfinance Outreach

	2011	2012	2013
Active Borrowers	2,073,071	2,355,943 (13.64)	2,832,715 (20.23)
Gross Loan Portfolio (Rs. million)	28845	38238 (32.56)	52092 (36.23)
Number of Branches	1739	1,918 (10.29)	2,127 (10.89)
Average loan balance (Rs)	21128	16,231 (-23.17)	18,389 (13.29)
Number of Loans Disbursed	608,505	696,884 (14.52)	892,013 (28.0)
Disbursement (Rs. million))	12,858	16,817 (30.79)	23,940 (42.35)
Average Loan Size (Rs)	21,128	24,131 (14.21)	26,838 (11.21)
Active Savors	3,933,496	4,682,422 (19.03)	5,977,426 (27.65)
Value of Savings (Rs million)	15,508	24,974 (61.03)	34,784 (39.28)
Number of Policy Holders	2,604,812	2,854,194 (9.57)	3,264,832 (14.38)
Sum Insured (Rs. Million)	30,136	36,054 (19.63)	44,182 (22.54)
Potential Microfinance Market	27,407,048	27,407,048	27,407,048
Penetration Rate (%)	7.56	8.0	10.3

Source: Microwatch, Pakistan Microfinance Network (various issues). Percentage growth is reported in parentheses.

Table 4: Financial Performance Indicators for MFIs in Pakistan

	2007	2008	2009	2010	2011	2012	Average (2007-12)
Adjusted return-on-assets (%)	6.4	7.6	3.3	0.1	0.1	1.2	3.12
Adjusted return-on-equity (%)	20.9	29.8	14	0.2	0.7	5.8	11.90
Operational self-sufficiency (OSS) (%)	89.0	80.8	104.6	99.7	108.4	109.4	98.65
Financial self-sufficiency (FSS) (%)	74.0	70.5	86.8	81.7	100.5	107.0	86.75

Source: Pakistan Microfinance Review, 2012.

Table 4A: Regional Benchmarking (Profitability. 2010)

	Africa	**Asia**	**ECA1**	**LAC2**	**MENA3**	**EAP4**	**All Regions**
PROFITABILITY							
Return on assets	0.8	1.4	2.3	1.6	4.7	2.7	2.3
Return on equity	4.6	8.8	7.9	7.0	8.2	11.5	8.0
Operational self sufficiency	105.1	108.9	116.1	109.4	131.1	116.9	114.6

Note: 1. Eastern Europe and Central Asia 2. Latin America and the Caribbean 3. Middle East and North Africa 4. East Asia and the Pacific
Source: Pakistan Microfinance Review, 2011

2.3.3. Financial Performance

The table 8 shows financial performance of the industry. Microfinance services industry achieved operational self-sufficiency in 2009 onward except for the year 2010, when it was 99.7 percent. The industry earned a respectable return on assets and equity during 2007-2009. The adjusted return on assets and adjusted return on equity in 2010 and 2011 were far more modest. The industry was badly hit during the floods of 2010. The floods of 2010 caused an estimated loss of Rs.10.7 billion including Rs. 2.7 billion direct and Rs. 8 billion indirect loss. The losses to the microfinance industry included the destruction of 86 microfinance bank branches; job-losses for hundreds of employees of the microfinance banks; damages to over 130 industries and to innumerable livestock and farms in rural areas assisted by the MFIs. Since 2010 and 2011 were not “normal” years for the industry, therefore performance of the industry for the said period cannot be compared with other regions of the world. However, the average performance (over 6 years) of the industry can be compared with other regions’ microfinance industry. The average return on assets of Pakistan’s microfinance industry was 3.12 percent during 2007-12, which was higher than the return on assets of all the regions except that of MENA region (4.7%). Similarly, the average return of equity (11.90%) for Pakistan was higher than that for all other regions. In terms of operating self-sufficiency however, the performance of Pakistan’s microfinance industry was much behind other regions (see Table 4 and Table 4A).

2.3.4. Productivity

Productivity indicators shown in the Table 5 depict a fluctuating trend. Depositors per staff and the deposit accounts per staff increased in 2011 compared to 2010. However, borrowers per staff and loans per staff dropped in 2011 compared to 2010. This drop is due to the hiring of more than 2000 new staff in the industry and inclusion of new reporting partners in the data set during this time (Microwatch, 2011).

Table 5: Productivity Indicators

	2007	2008	2009	2010	2011
Borrowers per staff	133	147	122	131	117
Loans per staff	142	156	122	131	117
Depositors per staff	120	22	41	64	94
Deposit accounts per staff	52	22	41	64	94

Source: Pakistan Microfinance Review, 2011

2.3.5. Risk

In terms of the various risk measures, it is observed that portfolio at risk (PAR) past 30 days for microfinance industry as a whole was 4.1 percent in 2010 up from 3.4 percent in 2009 and then dropped to 3.2 percent in 2011. The PAR past 90 days show the same trend. The write off stood at 3.6 percent in 2009, and then declining to 1.8 percent in 2010. It increased to 2.6 percent in 2011 due to the heavy losses caused by the floods. While the average PAR past 30 days and 90 days of Pakistan microfinance industry are closer to the PAR 30 and PAR 90 days for all other regions, the write-off ratio is much higher (Table 6A). The risk coverage ratio of Pakistan microfinance industry decreased by 9.8 percentage points from 88.4 percent in 2010 to 78.6 percent in 2011 and it further slipped to 61.6 percent in 201, which is not a healthy indicator for the industry.

Table 6: Risk Profile

	2007	2008	2009	2010	2011	2012	Average (2007-12)
Portfolio at risk (>30)-to-gross loan portfolio (%)	3.1	2.1	3.4	4.1	3.2	3.6	3.25
Portfolio at risk (>90)-to-gross loan portfolio (%)	2.2	1.0	1.9	2.8	2.1	3.0	2.17
Write off-to-average gross loan portfolio (%)	2.0	1.8	3.6	1.8	2.6	2.3	2.35
Risk coverage ratio (adjusted loan loss reserve-to-portfolio at risk >30days) (%)	122.3	393.9	82.7	88.4	78.6	61.6	137.92

Source: Pakistan Microfinance Review, 2011

Table 6A. Regional Benchmarking (Risk Profile, 2010)

	Africa	**Asia**	**ECA1**	**LAC2**	**MENA3**	**EAP4**	**All Regions**
RISK PROFILE							
Portfolio at risk > 30 days to gross loan portfolio	6.6	2.5	3.7	4.8	2.1	3.4	3.8
Portfolio at risk > 90 days to gross loan portfolio	3.9	1.6	2.6	3.1	0.7	1.9	2.3
Write- off ratio	0.7	0.0	0.3	1.4	0.3	0.4	0.5

Source: Pakistan Microfinance Review, 2011

2.3.6. Islamic Microfinance

In Pakistan, initiatives for Islamic microfinance have been undertaken by a few NGOs. Leading IMFIs in Pakistan are: Akhuwat, Asasah, Wasil Foundation [previously known as Centre for Women Cooperative Development (CWCD)], Islamic Relief Pakistan (IRP), Muslim Aid, Helping Hand, Namet, Khwendo kor, the Farz Foundation, Karakoram Cooperative Bank (KCBL), and the National Rural Support Program. The latter two MFPs are using both the Islamic and the conventional products. Asasah[6] has fully converted its

[1] Asasah was registered as NGO in 2003 as replica of Grameen bank. In July 2013, Asasah announced its conversion from conventional microfinance to Islamic microfinance. Initially in December 2009, Asasah converted its one conventional (Kasur) branch to Islamic microfinance with the Murabaha product. After the successful experience of this branch, Asasah transformed its operation from conventional to Islamic one. Asasah has started Musharakah, Murabaha, Qarz-e-hasana (including interest free loans for food security program). Asasah has replicated the methodology of Akhuwat for giving qarz-e-hsana loan. Before its transformation to Islamic microfinance, Asasah disbursed 170,000 loans, provided 35,000 health insurance and provided financial literacy training to 2800 women in 16 cities (see Asasahnama, July-December 2013, vol 1)

traditional microfinance to Islamic Microfinance in 2013. In Pakistan, many other MFIs are showing interest for using Islamic products alongside conventional products. The financial performance and the productivity indicators for some of the IMFIs, for which data are available, are reported in Table 7. The table shows that all of these were working below operational self- sufficiency and financial-self-sufficiency level in 2011. Akhuwat's productivity in terms of adjusted cost per borrowers is the lowest compared to Asasah and Wasil Foundation (Table 7). However, no data was reported in case of Farz Foundation. Similarly, no data are available in case of Islamic Relief Pakistan (IRP) and Muslim Aid. No separate data are available for some other institution, which use Islamic modes as well as conventional products.

Table 7: Some important performance indicators (2011)

	Akhuwat	Asasah	Wasil Foundation
Operating Self Sufficiency (OSS)	61.0	58.0	79.3
Financial self-sufficiency (FSS)	59.1	53.4	75.2
Borrowers per staff	95	95	54
Adjusted Cost per Borrowers (Rs.)	1672	6264	6921

Source: PMN, Pakistan Microfinance Review, 2011.

Akhuwat is providing interest-free microfinance services to poor families including qard-al-hasan, social guidance, capacity building and entrepreneurial training. Akhuwat has achieved a tangible and significant success since its inception in 2001. Akhuwat benefitted 478,500 families with outstanding portfolio of Rs. 2.2 billion and disbursed about an amount of Rs. 7.5 billion as on February 2014[7]. In the same period, number of active loans stood at 211,523 and the recovery was 99.83 percent. Akhuwat is covering 136 cities and towns with 260 branches. Although Akuwat's is working below OSS and FSS level, it should be noted however, that this is not-profit-earning organizations, who work based on voluntarism and philanthropy. People donate to these organizations, which are expanding year by year. In addition to that Akhuwat's borrowers are becoming voluntary donors, which cover over one-third of total operating costs. The following Table depicts donations from borrowers, which increased from a modest amount of Rs. 20,730 in 2008 to about Rs. 30 million in 2013.

Table 8: Donations from Borrowers (2008-13)

Year	Donation from borrowers	Growth Rate	Operating Expenses (OE)	Donations from borrowers as % age of OE
2008	20,730		8,294,253	0.25
2009	10,338	(50)	10,381,592	0.10
2010	6,107,574	59078	17,815,983	34.3
2011	12,258,508	200	36,666,461	33.4
2012	23,868,857	195	68,161,433	35
2013*	29,848,562	125		

*till Feb 2013

Source: IRTI, Islamic Social Finance Report (2014)

Wasil Foundation[8], formerly known as Centre for Women Co-Operative Development (CWCD), was established in 1992 aiming to economically empower poor communities and facilitate them in developing their businesses through micro credit and enterprise development programs. In 2009, Wasil Foundation extended its operations from

[7] Akhuwat, Website. Access on April 15, 2014.

[8] This section is heavily based on Islamic Social Finance Report, IRTI.

conventional microfinance to Islamic micro-finance and eventually discontinued conventional microfinance in 2010, thus becoming a purely Islamic microfinance organization.

Wasil Foundation has introduced five products based on murabahah, Salam, istisna, ijarah and diminishing Musharakah. It has been successful in identifying a customized financial product for each section of the society within the Islamic framework. Wasil is continuously seeking to develop the product development process in consultation with Shariah scholars with a clear objective to reduce transaction costs and achieve scale. The following table provides a comprehensive list of modes/ products suitable for a target beneficiary.

Table 9: Modes/Products and Beneficiaries at Wasil

Mode	*Target Beneficiary*
Zakat and sadaqah	Destitute unable to work
Qard al hasan	Poorest of the poor with ability to work
Murabahah	Micro level traders street hawker small shopkeepers
Salam	Small Farmers up to 5 acres land holding
Istisna	Micro manufacturers in different sectors
Ijarah	Farmers without land holding (Rental Land)
Diminishing Musharakah	Micro entrepreneur in need of assets
Master Salam (Ijarah + Salam)	Farmers in need of land plus money for cultivation

Source: IRTI, Islamic Social Finance Report (2014)

Wasil Foundation reached to 7,257 active borrowers, out of which about 19 percent were active women borrowers in 2012. The gross loan portfolio stood at Rs. 125 million (Pakistan Microfinance Review, 2011).

Wasil foundation has been facing some challenges related to successfully operating the Islamic Modes of financing. A great challenge that Wasil is facing is lack of Shariah-compliant funds. Wasil is obtaining interest based funds for providing the sharaih-compliant modes of financing. It faces the lack of meso-level support and other legal constraints. Another challenge, which is faced by such organizations, is the lack of financial literacy and awareness of the true spirit and ruling of Shariah. Among all modes, only not-for-profit modes, e.g. qard-al-hasan are perceived to be Islamic by customers and stakeholders. All profit-generating products are perceived to be un-Islamic, even though these are clearly permissible in Shariah.

2.-3. Waqf

Waqf[9] is an important religious and social institution, which has been used for the welfare of the needy, the poor, the family and the society. Wealth is transferred from private ownership to collective ownership (beneficiaries) through this mechanism. Personal assets or any other belonging can be endowed in *Waqf* for religious, educational, or any other benevolent purpose under specific terms and conditions. The terms and conditions include: (1) it is a permanent arrangement, and cannot be done for a certain period[10]; (2) it becomes immediately effective, and cannot be kept in abeyance; (3) it is an irrevocable legal contact; and (4) *Waqf* property can never be confiscated.[11]

In Past, Awqaf were set up for both the religious and social purposes. The first example of such *Awqaf* was the Mosque of the Prophet (PBUH) in Madinah, which was established by the prophet himself (Pbuh). Later, as recommended by the prophet (pbuh) other *Waqf* were established for the social purpose, such as the land of Khyber endowed by Umar and the

[9] This section is based on Shirazi (2014)

[10] The Malikites accept temporal *waqf* by the will of the founder.(see for details kahf, 2003)

[11] *http://www.banglapedia.org/httpdocs/HT/W_0018.HTM*

fruit were then distributed to poor, to free slaves, to provide for guest, wayfarer, and some reasonable quantity to its custodian. Another example was the purchase of water well (*Bi'r Rumah* by Uthman) and made it free for everyone in Madinah. The history tells that *Awqaf* had been growing year after year. It is proven fact that *Awqaf* have been the important pillar in the religious, social, cultural, scientific, economic and political life of Islamic society. For every conceivable enterprise of social benefit, there was a *Waqf, such as* for mosques, universities, schools, hospitals, orphanages, houses for the poor, food for the poor, the blind, battered/abused women, soup kitchens, wells, aqueducts, fountains, public baths, watchtowers, bridges, cemeteries, salaries, pensions, guesthouses, libraries, books and animal welfare. In Othman period, the society left the financing of health, education and welfare entirely to the waqaf system (See Ali, 2009; Rashid, 2011; and Ahmed, 2004).

The literature shows that during the Ottoman period, thousands of people, without expecting any personal interest, founded thousands of institutions with their own property and money in the areas of infrastructure building. These include roads, bridges, irrigation system, welfare services; educational services such as opening school library, university etc…and allocated some or all his private properties such as farms, houses, enterprises and savings as revenue sources to these institutions to ensure their continuous running[12]. We can find some important illustrations of *Waqf* institutions in the history. For example, three –quarters (¾) of all Arab land in the former Ottoman Empire belonged to *Waqf*. In Algeria , under French occupation , *Waqf* comprises half(1/2) of the lands of the country in the middle of the nineteenth century, during the same time in Tunisia *Waqf* represented 1/3 of land in Tunisia. In Egypt in 1949, about 1/8 of the agricultural land belonged to this category. (Boudjellal 2005 cited in Achmad Tohirin, 2010). Furthermore, the total budget of *Waqf* reached to one third of the state budget in Ottoman State where in each of some three hundred administrative units called sanjak, there were around a thousand *Waqf*s (YediYildiz, 1996). More importantly, *Waqf* went beyond the need of fulfillment of the poor to empowering them in the society. This was achieved through development and continuous assistance in education and health to build productive capacity, improve their access to finance, to innovate and research to assist them.

No doubt, history tells the rich experience of the role of *Waqf* in social development and the poverty alleviation, but today's revenues of *Waqf* are insufficient to pay even for the general maintenance of the Mosque. This is mainly due to the changes occurred in its management system. "With colonialism came misery to *Awqaf*. Thousands were abolished or put to other uses and governed by alien rules" (Rashid, 2011). He also suggested a survey of *Waqf* properties to prepare a data bank of *Awqaf* in all countries, which is a necessary condition for the efficient and effective management. He called for the revival of the family *Waqf* and the development of the waqaf properties.

The intention of many governments to revitalize *Waqf* is explained by its potential contribution to poverty alleviation. In fact, today *Waqf* could be useful in all aspects including education; access to finance to facilitate innovation and increase productivity; health care water, sanitation and many more. (See Khan, 2007). *Waqf* has a great potential to provide for the needs of the poor in not only the short run but also enriching them in the end. Keeping in view the importance of waqaf, in recent years, some efforts have been made by some countries to organize the *Awqaf* property, which is left unattended or misused. For example, In Indonesia, Indonesia *Waqf* Board (IWB), an independent institution, has been established few years ago to promote the economic benefit of *Waqf* asset for the sake of religious interest and people empowerment. [13] There are an estimated 358,710 *Waqf*

[12] For more information see http://yunus.hacettepe.edu.tr/~yyildiz/placeofthewaqf.htm

[13] Official website of IWB: http://bwi.or.id/index.php?option=com_content&view =article&id=1&Itemid=136&lang=en

location in Indonesia, which totals 1, 5 million sq meters. (Indonesia *Waqf* Board). This *Waqf* asset can be part of potential solution for helping the poor. In addition, cash *Waqf* has recently grown fast in Indonesia mainly because of its flexibility and potential to benefit poor anywhere. Indonesia *Waqf* deposit (IWD) is managing cash *Waqf*. The institution has enormously facilitated the redistribution and the management of cash *Waqf*. The cash waqaf has an annual potential collection of 3 trillion Rupiah. (Nasution, 2003 cited in Affandi and Nufus, 2010).

In Pakistan, before the nationalization of waqf properties, the individuals, local voluntary groups and the descendants of the saints managed waqf. Some waqf properties were mismanaged and misused for the purpose other than specified by the Waqaf and exploited by *Pirs, sajjddah-nashins, mujawars*, and ulama as well. For the purpose of making improvement in the administration and management of Waqf properties including shrines, mosques, land and buildings, department of Waqf was constituted as legal entity through Waqf Properties Act 1960 in each province- Punjab, Sindh, Baluchistan and Khyber-Pakhtunkhwa –and the government of Azad Jammu and Kashmir headed by a chief waqf administrator. In country there are many other waqf (trusts) properties managed by private individuals /organizations for the welfare of the deserving people. Most of the trusts are in the health and education sectors. The complete record of all these trusts are not available, which requires a detailed survey and registration.

The Awqaf Department of Sindh has 189 shrines, mosques and other properties (Table 10A). Table 10B shows the detail of attached properties. The province has 4419 unites including shops, houses/flats, plots, rooms and cabins. The department has 10912 acres of land. The Awqaf Department of AJ &K manages 55 shrines/Darbars with 403 employees. Department is administering 1329 kanals out of 3145 kanals of waqf land.

Table 10A: Waqf properties of Sindh

Sr.No	Zones	Shrine	Mosque	Waqf Properties	Total
1	Hyderabad	33	25	12	70
2	Sukkur	18	23	07	48
3	Karachi	27	32	12	71
	Grand Total	78	80	31	189

Table 10B: Details of Attached Properties

No. of Shops	No. of Houses / Flats	No. of Plots	No. of Rooms	No. of Cabin / Others	Total Units	Agriculture Land (In Acres)
2135	1625	174	267	218	4419	10912.05 Acres

Source: http://www.sindh.gov.pk/dpt/Usharzakaat/sehwan.htm

The awqaf Department of Punjab managing 37 important and famous shrines/darbars and 24 mosques. The government of Punjab nationalized 276 shrines/darbars, 406 mosques and 483 other properties. The details of other properties included 73,884 acres of land, 1596 shops and 1741 houses in 1984 (Malik, 1990).

Awqaf Department earn revenue from rents, lease, cash boxes and other gifts. This revenue generated is spent on administrative expenses, maintenance of the shrines/darbars and mosques, feeding poor through *langer khanas* (Almshouses), religious and social affairs. The waqaf department of Punjab run one hospital and 14 dispensaries under its social welfare program and provides *Jahez* (dowry) to 25 girls every month. The awqaf

department of Sindh extends Welfare / Financial Assistance to orphans, destitute and disabled persons, on yearly basis.

According to the report on Social, Economic and Educational Status of the Muslim Community of India (2006)[14] , there are about 490,000-registered *Awqaf* in all over India and the total area under *Awqaf* properties are about 600,000 acres and the book value at about Rs 60.00 billion. A good number of the *Awqaf* properties are located in city centers and the current market value is many times more than the book value. "As the book values of the Wakfs properties are about half a century old, the current value can safely be estimated to be several times more and the market value of the Wakf properties can be put at Rs. 1.2 lakh crores (1,200 billion, about US$ 24.0 billion). If these properties are put to efficient and marketable use they can generate at least a minimum return of 10 per cent which is about Rs. 12,000 crores (Rs. 120 billion, about US$ 2.4 billion) per annum. .. Wherever the Wakf lands have been put to efficient use they have generated an average return of about 20 per cent".

Keeping in view the importance of *Waqf,* many Islamic countries have set up either ministry or special department now to manage the *Waqf* institution. One of their missions is to revive *Waqf* and put this Islamic institution at the heart of poverty alleviation in their respective countries. In addition to this, some international *Waqf* program have succeeded in the social development of the poor and providing emergency reliefs. For instance, The Islamic Relief Worldwide *Waqf* Program whose aim is to provide sustainable solution for a better future has been successful in many parts of the globe and cover all aspects of development. In 2011 alone, the institution has implemented eight major programs, which affected the lives of thousands of family in the field of emergency supplies, water, sanitation, education, sustainable livelihood.[15]

Many writers emphasize the role of the private sector as the main driver for economic prosperity. The creation of a proper working environment for *Waqf* would thus lead to an increase in the private participation by voluntary transfer of asset to assist the poor. The funds available from *Waqf* institution will replace the government expenditures on poor and these funds could be utilized for developmental needs of the country; reduce its budget deficit, result better income distribution, economic growth and reducing poverty.."(Budiman and Kusuma 2011)

Literature on *Waqf* also identifies the lack of operational capacity. In Bangladesh for instance, Karim (2010) identified among others the lack of main power in the management of *Waqf* in the country. There are less than 100 officers managing nearly 150,000 estates. These officers in addition to their very small numbers also lack qualification for proper management. He also questioned the integrity of the *Waqf* institution official as these latter have been subject to many bribery complaints. According to him, there is too much discretion granted to them and in most of the case, they end up using it for their own advantages. Kahf (2003), on the other hand, proposed some reforms that have to be undertaken for a better management of *Waqf* institutions. These reforms include creating boards of supervision that consists of representatives of beneficiaries, working staff in *Awqaf* projects and properties and local community and NGOs; establishing criteria and measures of managerial efficiency in nonprofit corporations that are applicable to the variety of properties and objectives of *Awqaf*; auctioning the management of *Awqaf* on competitive ground for a definite period of time, say 3-5 years; and creating a government supportive body that may provide technical assistance, facilitate financing, and establish necessary governance regulations. When the Institutions of *Waqf* will have the support,

[14] http://www.scribd.com/doc/53403975/52/Economic-Potential-of-Wakf-Assets-in-India

[15] for more information a see http://www.irwaqf.com/index.php?waqf_programme/index/16

legitimacy, and operational capacity needed, then the creation of an effective public value could be expected.

3. Data Set and Methodology

The present study undertakes an extensive survey to elicit views of microfinance beneficiaries with respect to the applicability, suitability and sustainability of the model that seeks to integrate the institution of waqf with microfinance poverty alleviation. The views are then analyzed to test the model in the context of Pakistan.

3.1. Survey Area

The survey has been conducted in three of four provinces in Pakistan including Punjab, Karachi, and KPK. Baluchistan had to be excluded as it was marked by civil strife during the survey period. In KPK, the district of Mansehra was selected due the presence of Helping Hand for Relief and Development, which operates Mudarabah. Islamabad, the capital territory, and the Taxilla and Rawalpindi (Rawalpindi district) from the province of Punjab were selected, which were nearest and represented through a mix of Islamic and conventional MFIs. Karachi was selected to represent Sindh and also because a major waqf institution operates here. The disproportionate convenience sampling was preferred owing to budgetary constraints.

Table 11: Survey locations

Province	Sr. No.	Name of MFI/MFB	Province	Sr. No.	Name of MFI/MFB
Punjab		Azm Foundation	Sindh	6	Apna Microfinance Bank
	1	Urban Poverty Alleviation project		7	Saylani Welfare Trust (waqf)
	2	First Microfinance Bank		8	Ayesha Microfinance Institution
	3	National Rural Support Program		9	BRAC
	4	Kashf Foundation		10	Tameer Microfinance Bank
Sindh	5	Orangi Pilot Project	KPK	11	Helping Hand for Relief and Development (Mudarabah)

3.2. Sample Size, Sampling Technique and Data Collection

The sample size of 250 was considered sufficient given the budget and the time constraint. However, 260 respondents were interviewed instead of 250 with a view to bringing additional data to adjust for any rejection.

The sampling was non-probability and purposive. In view of limited budget and resultant small sample size, a convenience-based method was preferred. Three provinces and specific locations in them were identified for the survey.

Two enumerators' teams were deputed; one for Punjab (Rawalpindi district) and KPK (Mansehra district) while the other for Sindh Karachi district). The respondents were selected randomly by approaching MFIs/MFBs and one Trust maintaining waqf among its charity programs. The enumerators were trained before being sent to the field. Although, the enumerators gave their comments on the questionnaires wherever required, they were also asked to give their own views about poverty and questionnaire related issues, which are reflected in the survey results.

3.3. **Model to be Tested**

A few studies have suggested the integration of waqf with the microfinance for the benefits of the poor. Different models have been suggested for waqf to support project finance and

human resource development (Aslam et al., 2013). The model given below has been tested in three countries including Bangladesh, Malaysia and Turkey. The study focuses on obtaining views of microfinance borrowers with respect to the applicability, suitability and sustainability of the integrated model in Pakistan.

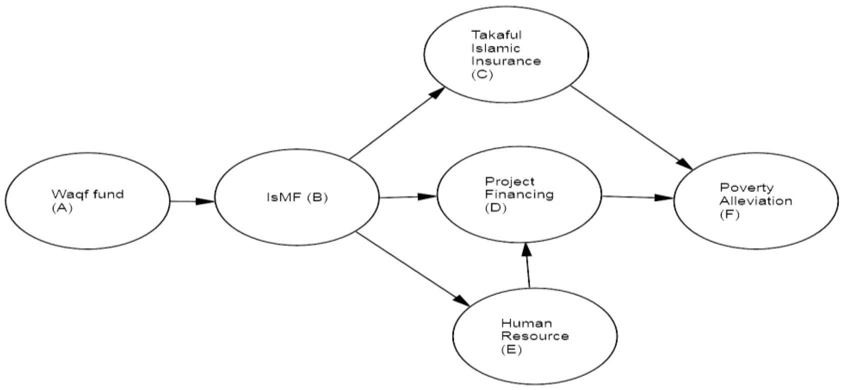


Figure 1: Integrated Waqf based Islamic Microfinance Model (IWIMM)

4. Results of the Survey

This section presents the results of the survey. The background information on the respondents, including age composition, education level, housing status, income, expenditure, savings and poverty alleviation programs is provided in appendix Table 4.1through appendix Table 4.13. Section 4.1 presents the awareness of respondents on Islamic microfinance, waqf, takaful and project financing. Section 4.2 is devoted to Structural Equation Modelling.

4.3 Awareness on IsMF, Waqf, Takaful and Project Financing

The objective of this section is to examine whether respondents are aware of the Islamic microfinance, waqf, takaful and project financing. Appendix Table 5.1 shows that about 52 percent of respondents are well aware of the existence of Islamic microfinance, while the rest were unaware about the existence of such program(s). Similarly, about 51 percent knew the purpose of Islamic microfinance and about 46 percent did not know the purpose of the program. About 52 percent knew that Islamic microfinance does not deal with interest. However, majority (82.4 percent) of the respondents were interested to know the other functions of Islamic microfinance. Similarly, they were asked about their awareness related to waqf. About 33 percent of the respondents were aware of the existence of waqf institutions, and only about 29 percent knew the purpose of waqf. About 40 percent were of the view that waqf is mainly used for graveyard, mosque and madrasah, while the rest disagreed or strongly disagreed to this use. Moreover, about 26 percent were aware of the role of waqf in poverty alleviation. Generally, it has been observed that more than 80 percent were found to be interested in further explanations and know more about waqf (Appendix Table 5.2).

Respondents were also asked about their awareness on Islamic insurance or takaful. More than 60 percent were unaware about the existence and the purpose of takaful. Similarly more than 85 percent did not know that takaful is a collective insurance and it is based on voluntary contribution, but they were interested in more explanation about takaful (Appendix Table 5.3).

Interestingly, more than 75 percent of the respondents were aware about the existence the purpose of group-based project finance and also knew that group-based project finance is

about sharing profit and loss. However, they were also interested in further explanation regarding the model (Appendix Table 5.4?).

4.4. Structural Equation Modeling

The present study applies SEM to establish the relationships among the 6 constructs of IWIMM. The model is validated based on the clients' perception on various items of the IWIMM. The SEM has two steps. Firstly, it requires running the measurement model or confirmatory factor analysis. This helps establish relationships among the constructs. Secondly, the structural model, which, is important in SEM to establish relationship between two constructs. This is shown by unidirectional arrows.

4.4.1. Measurement and Structural Model

Since all the items of 6 constructs have already been determined and confirmed by the previous study, the present study ignores the factor analysis. It is also due to avoid the cross-loading problems in factor analysis. However, reliability analysis and confirmatory factor analysis are conducted. The earlier one is shown in Table 12, while the later one is done by measurement model where some of the items are deleted based on the cut-off value.

Table 12: Reliability Values of the Construct

Variables	No. of Items	Cronbach Alpha
Waqf Resources (WR)	6	0.98
Islamic Microfinance (IMF)	7	0.63
Human Resource Development (HRD)	11	0.77
Project Financing (PF)	7	0.99
Takaful Financing (TF)	8	0.55
Poverty Reduction (PR)	6	0.51

Source: SPSS output from the survey data, 2014

As observed from Table 12 cronbach alpha values for all the variables are at least equal or above the threshold point of 0.60 with the exception of TF and PR, thereby confirming the adequate internal consistency of measurement instruments of the study variables. The initial and modified measurement models are shown in Figure 2 and 3 below:

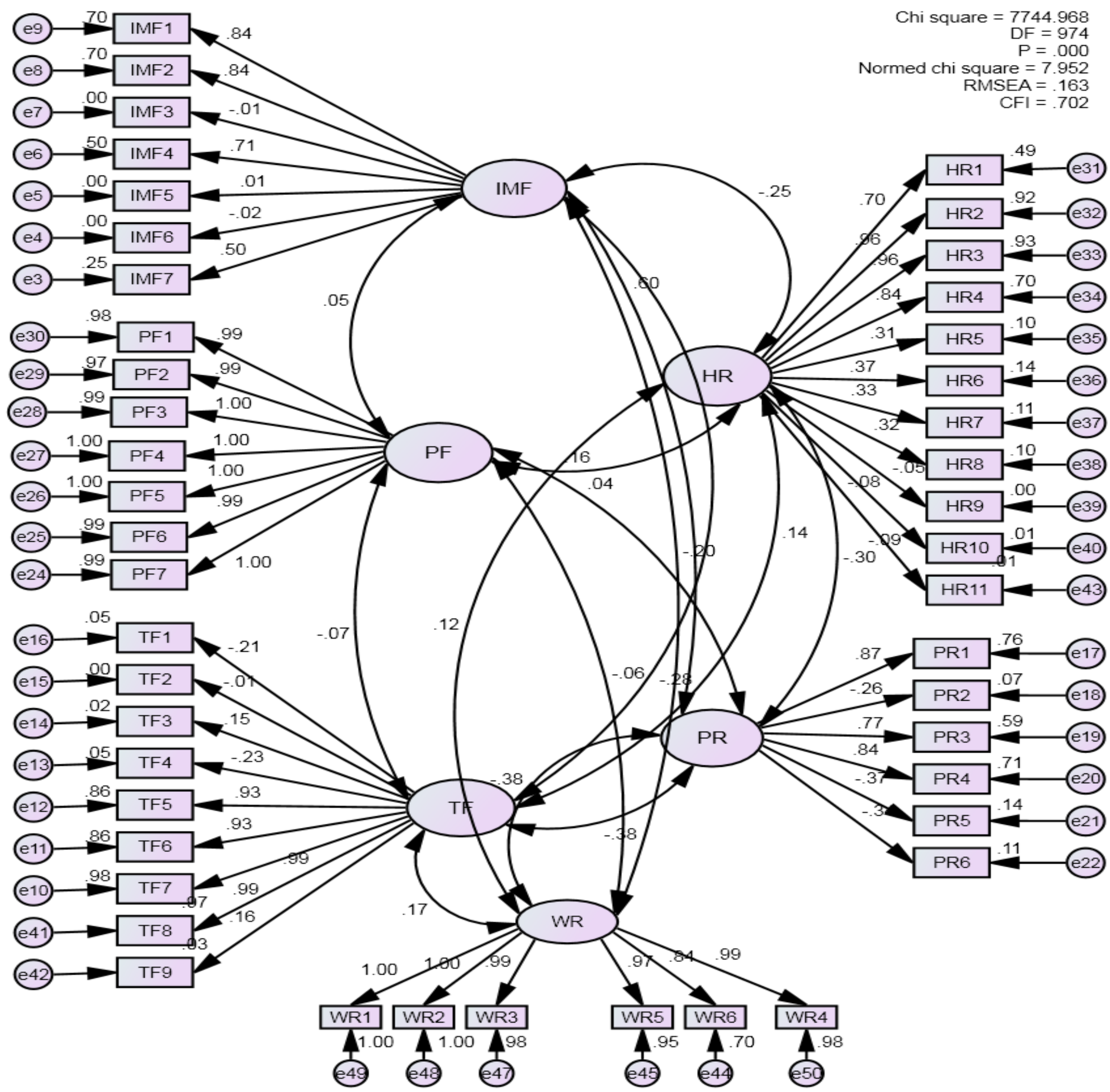


Figure 2: Initial Measurement Model

The constructs and items are remained constant in the initial measurement model. As shown in Figure 2, the model presents overall poor fit indices, for instance, lower values of CFI (0.702) and higher values of RMSEA (0.163). These are not the sign of a good model, which suggests for a modification of the model.

In the new or modified measurement model, few items are dropped from the six constructs depending upon the factor loading criteria (Figure 3).

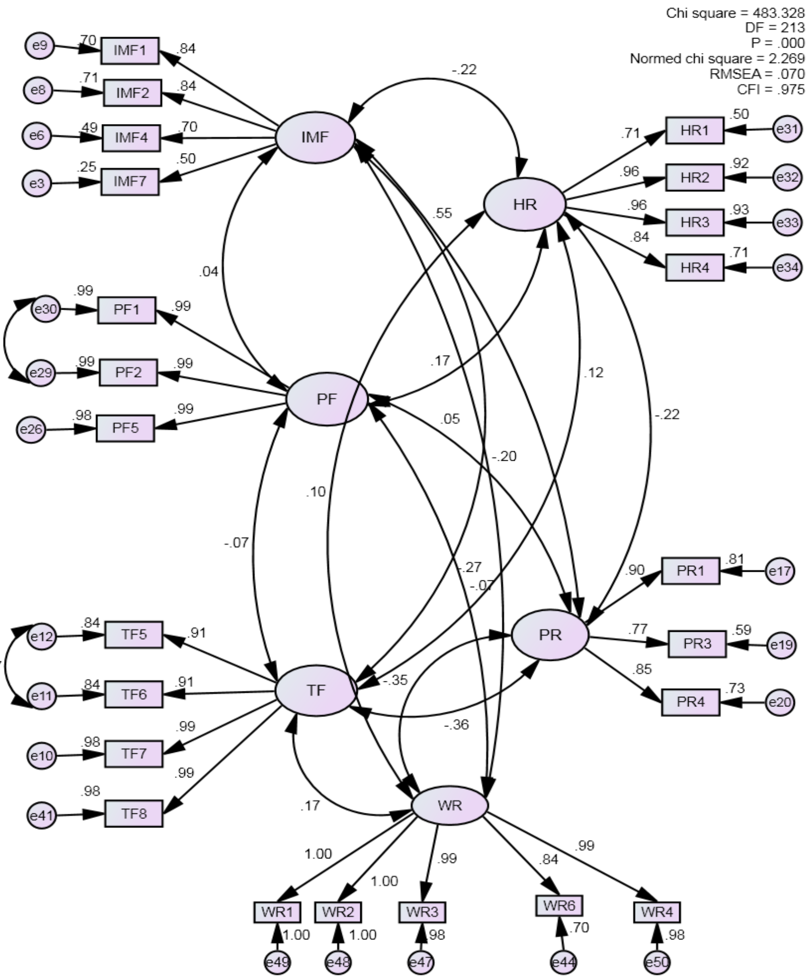


Figure 3: Modified Measurement Model

Table 13 presents the results of both initial and modified measurement model with the threshold values for the fit indices.

Table 13: Results of Measurement Model

Goodness-of-fit statistics	Initial Model	Modified Model	Threshold values for the fit indices
Normed-Chi Square	7.952	2.269	< 5.0
RMSEA	0.163	0.070	< 0.08
CFI	0.702	0.975	> 0.9

After the measurement model, the next step of SEM is to run structural model. These are the standard procedure of SEM. This structural model enables to observe whether the hypotheses are supported or not based on the path co-efficient and its' p-values. The following Figure 4 shows the full-fledged structural model.

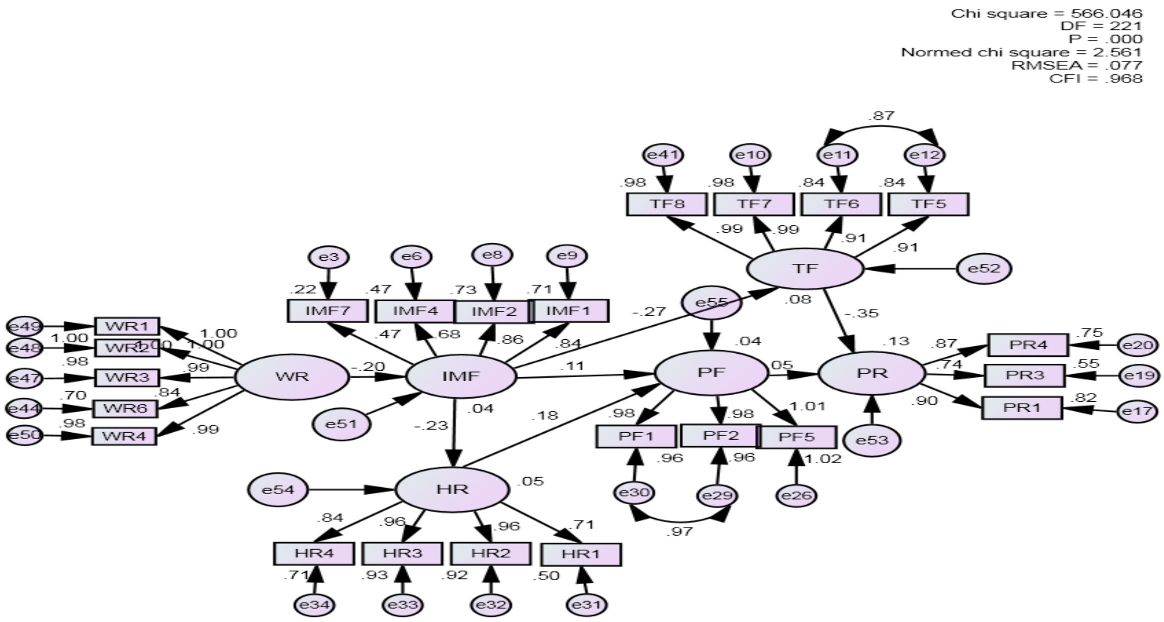


Figure 4 Modified and Full-Fledge Structural Model

In this modified model, four path co-efficients, namely, WR→IMF, IMF→TF, IMF→HRD, TF→PR, prove to be statistically significant at $p < 0.05$, $p < 0.001$ and, $p < 0.001$, and $p < 0.001$, respectively (Table 14).[16]

The study finds that the hypotheses H1 Waqf Resources and Islamic Microfinance), [WR→IMF]; and H2 (Islamic Microfinance and Takaful Financing), [IMF→TF], and H3 (Islamic Microfinance and Human Resource Development), [IMF→HRD] and H6 (Takaful Financing and Poverty Reduction) [TF→PR] are significant and negatively related. However, three other hypotheses, namely, IMF→PF, HRD→PF and PF→PR, are not supported based on the empirical results.

Table 14: Hypothesized Path Coefficients

Hypothesized Paths		Coefficient (β)	P-value (sig.)
H1	Waqf Resources → Islamic Microfinance	-0.115	.003
H2	Islamic Microfinance → Takaful Financing	-0.108	.000
H3	Islamic Microfinance → Human Resource Development	-0.166	.000
H4	Islamic Microfinance → Project Financing	.178	.114
H5	Human Resource → Project Financing	0.414	.006
H6	Takaful Financing → Poverty Reduction	-1.091	.000
H7	Project Financing → Poverty Reduction	0.034	.443

[16] The six constructs such as WR (Waqf Resources), HRD (Human Resource Development), IMF (Islamic Microfinance), TF (Takaful financing), PF (Project Financing) and PV (Poverty Alleviation) are presented by 45 items.

It is interesting to notice that all the four hypotheses are significant and negatively related which are not expected. This requires proper justification to establish IWIMM.
Firstly, neither the clients are used to receive IsMF services based on waqf resources nor they feel the necessity of external fund from waqf institution. This might be because of the availability of sufficient amount of loan from their respective institutions. Secondly, takaful financing and Islamic Microfinance are negatively related. The clients are not well aware of the various functions of takaful. They might consider the takaful financing of IWIMM with the conventional insurance. Furthermore, no such IsMF institutions are available that provide an effective takaful financing so that the clients have the good faith on it. Thirdly, IsMF and HRD are negatively correlated. The clients prefer not to involve IsMF institution with human resource development programs. This might be due to the ineffectiveness of the HRD programs offered by the IsMF institutions. Fourthly, the relationship between takaful financing and poverty reduction are negative and significant. Since the current IsMF system does not have proper takaful provision, the poverty reduction might be slow.
Based on the above results, it has been found that majority of the beneficiaries of the microfinance were not so poor. The MFIs have focused much on those who are already in small businesses. It is suggested that the microfinance institution may target the poor segments of the population. They may provide training, which is a precondition for the success of the enterprise. IWIMM model is not validated based on the perception of the respondents. This is because majority of them are not aware of waqf, takaful, Islamic microfinance or project financing. There is an urgent need for enhancing such awareness if the integrated model is to find acceptance in the market place.

5. Focus Group Results

A focus group discussion on 'Integration of *Waqf* and Islamic Microfinance Model (IWIMM) in OIC Member Countries: An Agenda for Poverty Alleviation' was organized at the International Islamic University, Islamabad, Pakistan on 16th April 2014**.** The participants were introduced, with the help of PowerPoint Presentation, the objectives of the workshop and significance of the study being conducted jointly by IRTI and IIUM With a view to imparting an understanding about the integrated model of intervention the concept of *Waqf* was elaborated in its Shariah perspective. In countries like Pakistan, India, and Bangladesh the general perception of *Waqf* is in terms of endowment of real estate in the form of *mazars* (shrines), agricultural lands and evacuee properties. The concept of cash *Waqf* was new to many participants. Therefore, the model was elaborated taking examples of *Waqf al nuqud* in Ottoman Caliphate and more recently the Kuwait *Awqaf* Public Foundation and Turkish experience. The participants had already been provided the thematic model and the paper published on the subject in Middle-East Journal of Scientific Research[17], which also helped in perceiving the idea before coming for FGD. The following expert comments on the issue were documented.

1. Combining *Waqf* with profit motive may have some Shariah constraints and be against the true spirit of welfare. In Shariah, *Waqf* of land or other assets are deemed to be in the ownership of Allah and it cannot be sold, gifted or inherited. After declaring a *Waqf*, the right of deserving peoples is created in benefits produced by

[17] Haneef, Mohamed Aslam, Muhammad Aliyu Dahiru, Pramanik, Ataul Huq and Mohammed Mustafa Omar, "Integrated *Waqf* Based Islamic Microfinance Model (IWIMM) for Poverty alleviation in OIC Member Countries", Middle-East Journal of Scientific Research 19 (2): 286-298, 2014 © IDOSI Publications, 2014

the *Waqf* establishment. If *Waqf* property is not productive then it can be exchanged (*Istabdaal Waqf*). However, there is difference of opinion among the Fuqaha about cash *Waqf*.

2. The lack of insight of the people and MFIs in Pakistan where one can hardly find any example of cash *Waqf* is a cause of concern. Such a model could be instrumental in lowering the cost of funds whose benefits may be transferred to the clients. Further, the model should not create a perception of being rooted charity. Rather, it should be seen as a business model seeking sustainability of operations through modest profits.
3. International resources like IDB's *Waqf* fund should be used to provide funds to the microfinance operators in IDB member countries instead of relying only on domestic sources. The idea of project financing where long term investments based on partnerships would bring significantly better results than conventional financing modes.
4. The idea is innovative and productive because *Waqf* is a religious institution and can attract people's trust. Moreover, unlike waqf of properties, it could invite contributions from people from all occupations who want to donate in the name of Allah in return of eternal reward. *Waqf* is governed by fiqh rules and therefore, should observe financial discipline. *Waqf* should not be used for commercial purposes keeping in view its role of welfare of common person. However, the funds' own sustainability should be kept in view where it should earn operating cost as well as provide for growth margin. Takaful should be used only in necessity otherwise, it will add to the cost of the model. Finally, the enterprising poor should get priority in assistance over the raw and economically inactive clientele. In addition, there should be provision of training to enhance entrepreneurial capacity of those already engaged in commercial activity to become more efficient clients.
5. The model could enlarge existing portfolio without any additional financial cost of raising funds. Such *Waqf* fund can effectively supplement their efforts in partnership financing.
6. The provincial governments in Pakistan, especially the government of Punjab (being the biggest custodian of *Waqf* properties) should be approached and convinced to use *Waqf* assets in more productive way as currently these assets (agricultural land and commercial properties) were producing extremely low and marginal cash flows, being affected by corruption by the vested interests. These properties of billions of rupees can be utilized efficiently in more than one ways. For example, the Government of Punjab may issue *sukuk* of these assets and cash flows be used for microfinance especially project financing. The groups can be organized around projects where venture capital model can be introduced for long-term financing. Further, the IsDB funded Youth Employment Schemes (YES) Programs for Egypt and Tunisia are good examples and the *Waqf* fund's better utilization could be ensured by associating the professional/ polytechnic institutes for youth employment. The groups of these professionals can be organized around skill concentrations with support of incubation centres. The *Waqf* should then be used for both micro and small enterprises through venture capital – longer term investments with gradual redeemability and takaful insurance. To bring financial discipline, the *Waqf* should be organized under Section 42 of Banking Companies Ordinance 1984 as non-profit and tax exempt companies.
7. Relying on charities or waqf alone may not always be enough and feasible. Business case may also be essential to ensure self-sustainability of most micro finance projects in the long run. He added that in order to do so, raising low cost funds (this

may still be feasible if micro finance is also earning a relatively higher return on its investments) or no cost funds (for doing micro finance on Qard basis) from wherever possible in a Shariah compliant manner should be welcome. The task could be accomplished by raising money through stock markets on an institutionalized basis (for a listed public limited company) for which details can be set. While *Waqf* cannot be contributed with profit motive, the involvement of stock exchange would be helpful in formalizing the *Waqf* initiative.

8. The *Waqf* fund of Meezan Bank in the name of 'Ihsan Trust' is already working with Akhuwat, Wasil Foundation, and Islamic Relief Pakistan. Instead of giving finance to the groups or individual clients out of *Waqf*, the industrial homes and professional schools may be established and skilled people be produced. However, these pass-outs can be supported with microfinance out of *Waqf* fund. The need was that Islamic banks, out of CSR, should establish *Waqf* funds to help poverty ridden segments of society.
9. The Islamic banks should be motivated to observe CSR and establish their *Waqf* funds invoving MFIs. The model should clearly demonstrate the sustainability and long-term growth to avoid short-term focus. The model as such should frame a standard cash flow framework to be used by Islamic MFIs on the pattern of 'plug and play'.
10. In Pakistan, the huge endowment of agricultural lands and commercial properties should be managed through market leverage and utilized by issuing *sukuk*. This can multiply the cash flow, many times, which can be used for poverty alleviation. Especially, the government of Punjab should be approached in this respect.
11. It is appropriate that takaful has been provided in IWIMM model. However, takaful companies should also volunteer to provide risk assurance to MFIs in cases of genuine defaults and assets of the clients.
12. The idea of listing Fund on stock exchange needs further investigation in the light of Shariah issues and, if workable, can be promoted to bring formality to the model.
13. Those MFIs, which already practice Qard Hassan or partnership modes like Mudarabah, should in first place be encouraged to establish *Waqf*.
14. The IWIMM model may be enhanced to further integrate corporate sector as contributor of *Waqf* fund.
15. To satisfy the Shariah condition where corpus of *Waqf* has to be preserved, the cash *Waqf* certificates should be issued in following manner in case MFIs have to develop their own *Waqf* funds. Initially, the certificate should receive half of the contribution for *Waqf* and half as donation for microfinance operations since it will not be possible to draw enough cash flows at this stage. Gradually, the donation part would diminish and *Waqf* part would increase until the time (say, after 5 years) the quantum of *Waqf* has increased substantially along with cash flows that subsequent certificates would be issued only for *Waqf*.

5.1. Interview with Experts

Interviews with practitioners in MFIs and Waqf were conducted to elicit their opinion regarding the integration of waqf and microfinance. They were asked general and some specific questions. The summary of the interview with experts is consolidated as under.

Microfinance can be subsidized to achieve faster poverty alleviation by reducing the operational costs, lowering cost of capital, using qard al hasan and waqf models and by practicing innovative strategies. The support of the government can also help in this regard. Lower charges / free loans will encourage the tendency in people of considering free loans as their right and problems of efficiency will arise.
Microfinance institutions prefer to give loans instead of partnership financing because trust is a major issue and models such as Musharakah and Mudarabah revolve around trust as well. Moreover, giving loans is easy to operate and to document as well.
There are opposing views to creation of joint ventures by Islamic microfinance institutions. On one side, it is considered a good practice wherein creation of a pool of needy people can make the operation of affairs easy to work on, whereas on the other hand, group disputes are considered a major cause of inefficiency and augmented risk.
Both, Musharka and Mudarabah are considered as better and preferred sources of partnership arrangement between microfinance institutions and the clients.
Mutual trust-deficit, a social environment characterized by unwillingness to bear responsibility on behalf of clients, and the difficulty to monitor the clients, are the major challenges of partnership-based arrangement.
Human resource aspect can be improved for the clients through provision of training and capacity building to improve their skills. Moreover, training of employees is important as well, which will help in the creation of market linkages for clients. Best results can be obtained if such training is provided before the disbursement. Hwever, since targets are to be met and the needy are to be served; human resource development should not be considered a condition of getting loans/finance. Their skills can be focused upon after the funds are provided.

Interviews with Practitioners in MFIs
Islamic microfinance can contribute to poverty alleviation through proper education of clients regarding loan usage and the use of wide range of products such as qard al hasan, musharka and waqf. In addition, skill development institutions can contribute towards poverty alleviation by providing trainings at below-market prices.
People prefer cash to real assets. Moreover, availability of credit lines, change in the mindset of clients and employees, high cost of training of human resources, and the attitude of the customer are the major challenges confronting Islamic microfinance institutions.
Many practitioners identify sources of funds as one big challenge. Fund inadequacy and high lending costs of Islamic microfinance institutions can be resolved via philanthropist activism, better market linkages of beneficiaries for their products, and regulatory authorities' contribution.
Waqf funds can be utilized to subsidize the high operational cost of Islamic microfinance institution and make it interest free. However, some practitioners have raised a fiqhi concern that while doing so, it must be kept in mind that the corpus of a waqf must be kept intact and only its cash flows could be utilized for the desired purpose. At the same time, qard hassan based funding will take care of this concern.

Microfinance can offer partnership based products in businesses such as rickshaw schemes, grocery shops and bookstalls but some consider it as risky and costly due to all round environment of mistrust and dishonesty.
The challenges faced in project financing include recovery issues, trust deficit, and disputes among groups. Staff and client level trainings to have a check and balance on both parties is also an important challenge in this regard.

IMFIs benefit from waqf resources for project financing as it can be considered the richest and cheapest source to MFI. Moreover, due to sustainability of waqf for longer term, the investment modes like ijara and diminishing musharakah can be practiced for project financing of clients' groups.
Takaful is beneficial for both the institution and clients. However, it is considered expensive than conventional insurance and clients have very limited knowledge about it.
Generally, people do not have much idea related to how waqf resources can be helpful in supporting takaful program of IMFIs but some are of the view that waqf can support takaful and as such, it will be attractive as the client will not pay the cost but still get the benefit.

Interviews with Practitioners in Waqf
MFI and waqf can be integrated by creating a Waqf pool, to absorb operational expenses so that the cost of MF program is reduced, ultimately benefiting the clients. Moreover, working capital needs can be addressed through short term products like murabahah and salam while fixed investment can be given through ijara or diminishing Musharakah.
Waqf should provide resources to MFI and MFI should embark on poverty alleviation program if both need to be integrated.
Waqf can be used to contribute directly to poverty alleviation by providing funds such as qard al hasan and strengthening of the social bonds alongside.
The challenges include fiqhi issues, the recovery of qard hasan, and the unavailability of proper regulations for waqf based models. The MFIs have to build confidence in the eyes of public to get resource for waqf fund.
There is mixed opinion as to whether waqf fund should be used directly. While some agree, others assert that the corpus of a waqf must remain intact and only the cash flows related to returns used.
When dealing directly with the borrowers, the management challenges include weak relationship with clients, operational challenges include recovery issues and organizational challenges include lack of expertise on the part of employees and beneficiaries.
Waqf can be used to uplift human resources by establishing training centres for the training of both the clients and the scholars (whom people follow).

6. Summary and Conclusion

Pakistan has been facing high incidence of poverty. It has been around 30 percent, on average, over the last five decades. Pakistan spends a significant amount on safety nets and social protection programs. These include the food support program, the peoples' work program, the natural calamities and disaster management program as well as various income support and microfinance programs. Some programs provide direct cash grants and other forms of indirect support to the poor, while microfinance programs provide microcredit, micro savings and micro insurance to the beneficiaries. The government extends full support to the microfinance industry and seeks to provide an enabling environment for its successful operation. As a result, the microfinance industry in Pakistan has been flourishing and steadily enhancing its outreach. However, despite all the efforts, according to estimates, it hardly covers 10 percent of the market in 2013. .
In Pakistan, initiatives for Islamic microfinance have been undertaken by a few NGOs. About 9 institutions provide Islamic products and another two institutions use both Islamic and the conventional ones. Almost all IMIs function below operational self- sufficiency (OSS) and financial-self-sufficiency (FSS) levels. These include organizations like Akhuwat with unique models of intervention and therefore, not comparable along traditional parameters. Their uniqueness arises out of a sustained growth in operations rooted in and benefiting from voluntarism and philanthropy. Although Akuwat's is working

below OSS and FSS level its ever-expanding funds base due to donations has made possible an exponential growth.

Most of IMIs are unable to increase their outreach due to the human and financial constraints. They face a constrained supply of funds as well as human resources. This paper posits that the constraints are more apparent than real. Islamic finance must include as part of the formal financial system, its time-tested institution of waqf involving endowment of both financial and real assets for community empowerment. The IMIs should be well aware of how to create and put to use such community assets for the economic and social betterment of the community. Historically, *waqf* served the purpose of need-fulfillment of the poor as well as their long-term economic and social empowerment. This was achieved by awqaf through provision of education and health to build productive capacity, improve access to finance, facilitate research and innovation and a host of interventions to alleviate poverty and bring about comprehensive human development. Scholars as well as policy makers in the Islamic world once again see, in the institution of waqf, a possible solution to the problems of the humanity, especially those of hunger, deprivation and grinding poverty. A few studies have suggested the integration of waqf with the microfinance so that the prohibitive levels of operational costs associated with microfinance may be brought down to realistic and affordable levels. Different models have been suggested for waqf to support project finance and human resource development. The present study is based on a similar hypothesis of integration for human and enterprise development. The study is focused on obtaining views of microfinance beneficiaries with respect to the applicability, suitability and sustainability of the integrated model. The present study tests the model in the context of poverty alleviation in Pakistan.

The survey conducted as part of the study has some interesting findings. Most of the respondents were aware of the poverty reduction programs and have benefitted from it. Majority of them were receiving loans from MFIs and a few from the banks. For 56 percent of respondents, the amount of loan was sufficient for their business needs. The study interestingly finds that a majority of the respondents are not aware of Islamic microfinance, waqf, takaful and project finance – the major components of the proposed integrated model of intervention. The survey team was asked to assess the general financial status of the respondents during the interview. They opined that about 78 percent of the respondents were found to be not so poor implying that MFIs advance loans to the experienced established businesses rather than helping the very poor or poor.

The main purpose of the study was to take the views of the respondents and to justify the needs for the IWIMM. The Structural Equation Modelling was used to find the relationship between various components of the proposed program. SEM results indicated that the relationships between pairs of components, e.g. waqf resources and Islamic microfinance; Islamic microfinance and takaful financing; Islamic microfinance and human resource development; and finally, takaful financing and poverty reduction are statistically significant and negative. This does not support the model. However, these results are based on the views of the respondents who happen to be clients of MFIs and who may be lacking the knowledge of the basic constructs of the model. They are not well versed with the functions of takaful or Islamic microfinance or waqf or even project finance. Therefore, the study is supplemented by focus group discussions and interviews involving professionals and practitioners, who invariably supported the integrated model while voicing some concerns that should be considered while formulating policies for the sector.

The experts emphasized on exercising caution while dealing with the institution of waqf. Waqf is essentially rooted in philanthropy while it has a business face and waqf assets must

be invested prudently to generate a safe and steady stream of cash flows. A balance must be maintained between the apparent conflicting goals to preserve the irreversibility and inalienability of waqf assets while developing them with private return-seeking capital investment or exchanging them for expanding the benefits/ cash flows. The experts expressed hope that a model that integrates waqf with microfinance can be instrumental in lowering the cost of funds and make microfinance affordable. Others appreciated the integration of other components of the mode, e.g. the idea of project financing where long-term investments based on partnerships. This would bring significantly better results than conventional financing modes. Experts also cited real-life case studies that use partnership-based microfinance and clearly witnessed a possibility of bringing down the cost of funds with waqf resources. Experts also highlighted the importance of skill-imparting institutions and programs, possibly financed by waqf resources that can enhance the success rate of micro and small enterprises and leave more wealth in the hands of the poor.

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Appendix: Background Information on Respondents

Appendix Table 4.1: Percentage Distribution of Respondents Based on Gender, Area, Age and Marital Status

Particulars		Total	Percentage
Gender	Male	145	55.77
	Female	115	44.23
Punjab	Rural	23	8.88
	Urban	86	33.20
KPK	Rural	38	14.67
	Urban	0	0
Sindh	Rural	20	36.29
	Urban	94	6.94
Age	18-29	45	17.79
	30-44	122	48.22
	45-59	65	25.69
	60-64	21	8.30
Marital Status	Single	23	8.91
	Married	206	79.84
	Widow	18	6.98
	Divorced	4	1.55
	Single Parent	7	2.71

Appendix Table 4.2: Percentage Distribution of respondents by years of formal schooling

None	informal	madrassa	primary	secondary	HSS	1college/University
20.08	18.92	0.77	21.62	30.89	5.79	1.92

Appendix Table 4.3: Percentage Distribution of respondents by occupation

Housewife	1.18
Farmer	9.80
Fishing	1.18
Livestock	0.78
Orchard	1.18
Manufacturing	9.80
Factory Worker	0.78
Govt. Servant	2.35
Business	40.00
Other	32.94
Total	100.00

Appendix Table 4.4: Percentage Distribution of respondents by Vocational Training

Yes	8.8
No	91.2
Total	100.0

4.1.4 Housing Status

Appendix Table 4.5: Dwelling Status of the Respondents

Factor	Category	Frequency	Percent
What is the ownership status of your dwelling?	Built on squatter land	4	1.5
	Own property	155	59.2
	Given by relative	10	3.8
	Provided by Govt.	8	3.1
	Renting	85	32.4
	Total	262	100.0

What is the distance between your dwelling and Microfinance Institution?	Less than 1 km	93	35.5
	1.1 - 2 km	13	5.0
	2.1 - 3 km	23	8.8
	Greater than 3 km	133	50.8
	Total	262	100.0
How far is your dwelling from the main road/street?	Less than 0.5 km	150	57.3
	0.6 - 1 km	59	22.5
	Above 1 km	53	20.2
	Total	262	100.0
How far is your dwelling from the market?	Less than 1 km	154	58.8
	1.1 - 2 km	25	9.5
	2.1 - 3 km	22	8.4
	Greater than 3 km	61	23.3
	Total	262	100.0
How many rooms does the dwelling have?	1 – 2	21	8.0
	3 – 4	146	55.7
	5 – 6	54	20.6
	6 plus	41	15.6
	Total	262	100.0

Appendix Table 4.6: Percentage Distribution of Respondents by Energy Sources and Access to Drinking Water

Factor	**Category**	**Percent**
What is the source of electricity supply?	Shared connection with others	16.4
	Own connection	81.7
	Missing	1.9
	Total	100.0
What source(s) of energy do you use in your dwelling?	Fire wood	11.8
	Gas	84.4
	Electricity	2.7
	Missing	1.1
	Total	100.0
What are your sources of drinking water?	Rainwater, dam, pond, lake or river, spring	8.4
	Public well-sealed with pump	1.1
	Well in residence yard	8.0
	Piped public water	67.6
	Bore hole in residential area	14.9
	Total	100.0

Appendix Table 4.7: Income Patterns of the Respondents

Income bracket	**Before microfinance (% households)**	**After microfinance (% households)**
Less than 1000	3.1	0.0
1001-4000	21.4	1.1
4001-7000	36.6	21.0
More than 7000	37.4	76.7
Missing	1.5	1.1
Total	100.0	100.0

Appendix Table 4.8: Expenditure Patterns of the Respondents

Category	**Before microfinance (% households)**	**After Microfinance (% households)**
Less than 1000	5.0	0.0
1001-4000	27.1	4.6
4001-7000	33.6	32.1
More than 7000	28.6	58.0
Missing	5.7	5.3
Total	100.0	100.0

Appendix Table 4.9: Saving Patterns of the Respondents

Category	before joining the scheme (% household)	(after joining the scheme (% households)
Less than 400	9.9	--
401-600	11.1	--
601-800	8.4	.4
801-1000	16.4	4.2
Above 1000	52.3	87.0
Missing	1.9	8.4
Total	100.0	100.0

Appendix Table 4.10: Percentage distribution of respondents based on food sufficiency level

Factor	Category	Percent
Do the household members have full meals for at least 2 days?	Yes	91.2
	No	8.1
	Total	99.2
During last 30days, did your household have enough to eat every day?	Yes	80.2
	No	19.5
	Total	99.6
For how many weeks in a month are you able to store a stock of staple food in your house?	One week	52.3
	Two weeks	6.5
	Three weeks	1.5
	Four weeks	39.7
	Total	100.0
What is your overall assessment of the general food sufficiency of the respondent?	Insufficient	9.2
	Average	45.0
	Sufficient	45.8
	Total	100.0
What is your overall assessment of the poverty level of the respondent in relation to food quality?	Poor	9.9
	Average	45.0
	Good	45.0
	Total	100.0

Appendix Table 4.11: Awareness on Poverty Alleviation Programs of the Respondents

Factor	Category	Percent
Awareness on poverty alleviation program/scheme	Yes	97.3
	No	.8
	Total	98.1
	Missing	1.9
Name of the program/scheme that you are participating	Govt.Program /Scheme	4.2
	NGOs Program/ Scheme	46.9
	Islamic Institutional Program/ Scheme	38.5
	Community Based Program/Scheme	8.4
	Missing	1.9
	Total	100.0
NGOs program / scheme	High	5.7
	Medium	39.8
	Low	39
	Missing	15.5
	Total	100.0
Islamic Institutional program / scheme	High	19.8
	Medium	22.8
	Low	24.8
	Missing	32.6
	Total	100.0

Appendix Table 4.12 **Source (s) of loan and years involved in Microfinance Program.**

Factor	Category	Percent
Devices for loan transaction	Not Applicable	98.5
	HP/Mobile	1.1
	Computer and internet	.4
	Total	100.0
What is (are) the source (s) of your loan	MFIs	74.4
	Banks	24.4
	Missing	1.1
	Total	100.0
How many years are you involved in Microfinance Program?	1 – 2	52.3
	3 – 4	24.0
	5 – 6	11.1
	Above 6	11.5
	Missing	1.1
	Total	100.0

Appendix Table 4.13: Loan Information of the Respondents

Factor	Category	Percent
Is the amount you have been receiving sufficient for your business?	Yes	55.7
	No	44.3
	Total	100.0
What proportion of your business need has been met?	Up to 25%	20.6
	Up to 50%	65.3
	Up to 75%	14.1
	Total	100.0
To what extent do you consider yourself indebted	Highly indebted	3.1
	Moderately indebted	29.8
	Least indebted	67.2
	Total	100.0
Overall assessment of the general financial status of the respondent	Very poor	.8
	Poor	17.6
	Not so poor	77.9
	Missing	3.8
	Total	100.0

Appendix Table 5.1

Awareness on Islamic Microfinance		Percent
I am aware of the existence of Islamic Microfinance program	Strongly disagree	40.8
	Disagree	4.6
	Neutral	3.1
	Agree	1.1
	Strongly Agree	50.4
	Total	100.0
I do know the purpose of Islamic micro-financing	Strongly disagree	40.1
	Disagree	6.1
	Neutral	3.1
	Agree	.8
	Strongly Agree	50.0
	Total	100.0
I know Islamic microfinance does not deal with interest	Strongly disagree	35.9
	Disagree	4.6
	Neutral	7.3
	Agree	2.3
	Strongly Agree	50.0

	Total	100.0
I need more explanation on other functions of Islamic microfinance	Strongly disagree	1.9
	Disagree	1.2
	Neutral	8.0
	Agree	6.5
	Strongly Agree	82.4
	Total	99.6

Appendix Table 5.2: Awareness on Waqf

Awareness on Waqf		Percent
I am aware of the existence of the institution of waqf	Strongly disagree	59.2
	Disagree	6.1
	Neutral	1.9
	Agree	1.9
	Strongly Agree	30.9
	Total	100.0
I do know the purpose of waqf in Islam.	Strongly disagree	58.4
	Disagree	6.5
	Neutral	6.1
	Agree	2.7
	Strongly Agree	26.3
	Total	100.0
I know waqf is mainly used for graveyard, mosque and madrasah	Strongly disagree	49.2
	Disagree	1.5
	Neutral	5.0
	Agree	5.0
	Strongly Agree	39.3
	Total	100.0
I know the role of waqf in poverty alleviation.	Strongly disagree	54.2
	Disagree	4.2
	Neutral	14.1
	Agree	4.2
	Strongly Agree	23.3
	Total	100.0
I need more explanation about the function of waqf.	Strongly disagree	.4
	Disagree	1.1
	Neutral	10.3
	Agree	7.3
	Strongly Agree	80.9
	Total	100.0

Appendix Table 5.3: Awareness on Takaful

		Percent
I know the existence of Islamic insurance	Strongly disagree	61.5
	Disagree	1.9
	Neutral	3.4
	Agree	1.1
	Strongly Agree	32.1
	Total	100.0

I do know the purpose of Islamic insurance	Strongly disagree	63.7
	Disagree	2.3
	Neutral	7.6
	Agree	1.1
	Strongly Agree	25.2
	Total	100.0
I do know takaful is a collective insurance	Strongly disagree	85.9
	Disagree	3.4
	Neutral	3.8
	Agree	1.1
	Strongly Agree	5.7
	Total	100.0
I know takaful is based on voluntary contribution.	Strongly disagree	85.9
	Disagree	1.5
	Neutral	4.6
	Agree	1.5
	Strongly Agree	6.5
	Total	100.0
I need more explanation about takaful	Strongly disagree	6.1
	Disagree	.8
	Neutral	9.9
	Agree	6.9
	Strongly Agree	76.3
	Total	99.6

Appendix Table 5.4: Awareness on Project Financing

		Percent
I am aware of the existence of group project	Strongly disagree	9.9
	Disagree	.4
	Neutral	14.5
	Agree	8.4
	Strongly Agree	66.8
	Total	100.0
I know the purpose of group project	Strongly disagree	9.5
	Disagree	.4
	Neutral	14.5
	Agree	8.4
	Strongly Agree	67.2
	Total	100.0
I know group project is about sharing profit and loss	Strongly disagree	9.5
	Disagree	.8
	Neutral	13.4
	Agree	10.3
	Strongly Agree	66.0
	Total	100.0
I need more explanation about group project financing.	Strongly disagree	2.3
	Disagree	.4
	Neutral	13.7

	Agree	8.8
	Strongly Agree	74.8
	Total	100.0